

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, March 19, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the Board Room of the ASRS office at 7660 East Broadway Boulevard, Suite #108, Tucson, Arizona 85710-3776. Mr. Karl Polen, Chairman, Arizona State Retirement System Board called the meeting to order at 9:09 A.M., MST.

The meeting was teleconferenced to the ASRS office, 10th Floor Board Room, 3300 North Central Avenue, Phoenix, Arizona 85012.

1. Call to Order; Roll Call.

Present: Mr. Karl Polen, Chairman
Mr. James Jenkins, Vice Chairman
Mr. David Borg
Mr. James Bruner (Initially excused; joined the meeting at 9:13 a.m.)
Dr. Merlin DuVal
Dr. Chuck Essigs
Mr. Alan Maguire (via teleconference call)
Mr. Norman Miller
Mr. Ray Rottas (via teleconference call)

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the February 19, 1999 Meeting of the Arizona State Retirement System Board, the Minutes of the January 15, 1999 Executive Session, and the Minutes of the February 19, 1999 Executive Session.

Motion: Dr. Merlin DuVal moved to approve the minutes of the February 19, 1999 Meeting of the Arizona State Retirement System Board, the minutes of the January 15, 1999 Executive Session, and the minutes of the February 19, 1999 Executive Session.

Mr. David Borg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

Mr. James Bruner joined the meeting at 9:13 a.m.

3. Approval of Consent Schedule.

Motion: Dr. Merlin DuVal moved that the Arizona State Retirement System Board approve the Summary Report of Retirements, Refunds, and Death Benefits; and System Transfers.

Mr. David Borg seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

4. Board Hearing and Action by the Board Regarding the Request for Hearing of Ms. Linda Fern Eisele.

This agenda item was postponed to the April 16, 1999 Board meeting as the Board continues its determination of this matter pending receipt from the administrator, Fortis Benefits, of the report of the independent medical examination and peer review that the Board requested during its February 19, 1999 meeting.

Mr. Alan Maguire was excused from the meeting at 9:40 a.m.

5. Presentation, Discussion and Appropriate Action Regarding the Performance of International Managers for the Period Ending December 31, 1998.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the Investment Manager's performance for Axe-Houghton & Associates, Bank of Ireland, BGI Barclays Global Investors, Brandes, and Capital Guardian Trust Company for the period ending December 31, 1998.

Mr. Seth Lynn, President reported on Axe-Houghton & Associates' performance for the period ending December 31, 1998.

	IV Qtr	1 Year	3 Years	5 Years	Inception (5/31/92)
Countries	-0.02	-0.23	-0.08	-0.05	-0.07
Stock Selection	-0.06	1.06	0.60	0.83	0.66
Other Trading	0.05	-0.23	-0.13	-0.06	0.05
Fees	-0.02	-0.09	-0.08	-0.08	-0.08
Total Value Added to the ASRS	-0.05	0.51	0.31	0.64	0.56

Mr. Denis Donovan, Director International Business and Head of Portfolio Management and Ms. Lelia Long, Vice President Client Services reported on Bank of Ireland's performance for the period ending December 31, 1998.

	IV Qtr (Inception 9/30/98)
Countries	-1.88
Stock Selection	-0.77
Hedging	-0.68
Other (currency)	3.62
Fees	-0.09
Total Value Added to the ASRS	0.20

Mr. Eric Clothier, Managing Director/Client Relationship Officer reported on BGI Barclays Global Investors' performance for the period ending December 31, 1998.

	IV Qtr	1 Year	Inception (5/31/96)
Sector Selection	0.00	0.00	0.00
Stock Selection	0.00	0.00	0.00
Securities Lending	0.02	0.08	0.08
Other	-0.38	-0.01	-0.23
Fees	-.0125	-0.05	-0.05
Total Value Added to the ASRS	-0.37	0.02	-0.20

Mr. Charles Brandes, Managing Partner and Mr. Ian Sunder, Portfolio Manager reported on Brandes' performance for the period ending December 31, 1998. Mr. Brandes explained they currently do not have the systems capability to generate the type of performance attribution requested. Brandes is exploring the development of a system that will allow them to perform such analysis.

Mr. Robert Ronus, President and International Portfolio Manager and Mr. Robert Spare, Senior Vice President Client Relations reported on Capital Guardian Trust Company's performance for the period ending December 31, 1998.

	IV Qtr (Inception 10/1/98)
Countries	1.0
Stock Selection	1.5
Hedging	-0.3
Other (currency)	-0.4
Fees	-0.1
Total Value Added to the ASRS	1.7

6. Presentation, Discussion and Appropriate Action Regarding an Independent Hearing Officer.

Mr. Fred Stork, Assistant Attorney General presented to the Board, as requested during their February 19, 1999, information about using the services of a hearing officer to conduct Board hearings. Mr. Stork provided the Board with informational pamphlets from the Office of Administrative Hearings.

Motion: Mr. Ray Rottas moved to postpone action on this agenda item to the April 16, 1999 Board meeting in order to allow Board members to closely review the materials obtained from the Office of Administrative Hearings.

Mr. James Bruner seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding a Deputy Director for External Operations.

Mr. LeRoy Gilbertson, Director discussed the recommendation that the current position, Assistant Director for External Affairs, be upgraded to a Deputy Director for External Operations. Mr. Gilbertson explained the appropriateness to raise the level of expertise of this position due to the expected interaction with Legislators and legislative staff and the Governor's Office and staff.

Motion: Mr. Norman Miller moved to approve the Executive Director's creation and preceding appointment regarding a Deputy Director for External Operations.

Dr. Chuck Essigs seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

Note: Because the ASRS Board members planned to convene to Executive Session, the order of agenda items was changed to accommodate the public.

8. Call to the Public.

Mr. Bill Goettsch from the Tucson public addressed the Board about the status of the Zero Coupon Portfolio managed by Duff & Phelps.

Mr. Goettsch inquired on the status of the Norwest Tower and the Broadway property. Mr. Karl Polen informed Mr. Goettsch that this matter has been referred back to the Real Estate Board Committee.

Mr. Goettsch requested clarification regarding agenda item 3B) Approval of System Transfers. Mr. Polen stated that these were transfers to and from the ASRS.

Mr. Goettsch inquired about the status of the three Board appointments. Mr. LeRoy Gilbertson reported that Mr. James Bruner, Mr. James Jenkins, and Dr. Merlin DuVal had been re-appointed by the Governor.

Mr. Goettsch stated to the Board his desire for the appointment of the Deputy Director for External Operations to be from a minority.

There were no requests to speak from the Phoenix public.

9. Consideration and Discussion of the Salary of the Deputy Director; Senior Investment Manager; Assistant Director Administrative Services; Assistant Director Information Services; and Assistant Director Member Services of the ASRS.

Motion: Dr. Chuck Essigs moved that the Board convene to Executive Session to discuss the salary for the ASRS Deputy Director; Senior Investment Manager; Assistant Director Administrative Services; Assistant Director Information Services; and Assistant Director Member Services for Year 1999.

Mr. James Bruner seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

The ASRS Board recessed the Regular Session at 11:01 A.M.

Mr. Ray Rottas was excused from the meeting at 11:20 A.M.

The Board reconvened to Regular Session at 11:22 A.M.

10. Presentation, Discussion and Appropriate Action Regarding the Salary of the Deputy Director; Senior Investment Manager; Assistant Director Administrative Services; Assistant Director Information Services; and Assistant Director Member Services of the ASRS.

Motion: Mr. James Jenkins moved to approve the following 1999 salary structure for the Senior Investment Manager effective March 22, 1999; and the Deputy Director; Assistant Director Administrative Services; Assistant Director Information Services; and Assistant Director Member Services effective January 1, 1999:

	Total Base Salary	Pay for Performance	Total Salary
Paul Matson (Grade 28)	\$91,000	\$6,825	\$97,825
Anthony Guarino (Grade 27)	84,000	5,670	89,670
Rich Beissel (Grade 26)	76,000	6,080	82,080
Kent Smith (Grade 26)	72,000	5,760	77,760
Donna Buelow (Grade 26)	72,000	3,420	75,420

Dr. Chuck Essigs seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

11. Director's Report

Mr. Tom Finnerty, Legislative Liaison reported on the status of current House and Senate Bills.

Mr. Fred Stork reported on the liability of the ASRS for retirement benefits of a member whose employer has failed to remit contributions to the ASRS on behalf of the member. Mr. Stork stated that although the legislature has made employers responsible for the payment of both member and employer contributions, the ASRS has a responsibility to collect those contributions. Further action on this matter was postponed to the April 16, 1999 Board meeting to discuss a collection policy for late or nonpayment from employers.

12. Board Requests for Agenda Items.

Mr. Karl Polen pointed out the new report on page three of the investment section of the Director's Report.

Mr. Polen explained that at this time there are two Board members unable to attend the June, 1999 meeting in Flagstaff. Mr. Polen stated the Board should reconsider conducting the Callan Study report at that meeting if less than seven members are able to attend.

13. The next ASRS Board meeting is scheduled for Friday, April 16, 1999 at 9:00 A.M. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012.

14. Adjournment of the ASRS Board.

Mr. Karl Polen, Chairman adjourned the March 19, 1999 meeting of the ASRS Board at 12:00 P.M.

Respectfully submitted,

Jalene Trivino, Secretary

Date

LeRoy Gilbertson, Director

Date